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STATE OF MONTANA

PINE HILLS SCHOOL

Report on Examination of Financial Statements

Conducted Under Contract by Gretzman, Adams & Co.,  
Certified Public Accountants

Fiscal Years Ended June 30, 1977 and 1976



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PINE HILLS SCHOOL

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Certified Public Accountants

Fiscal Years Ended June 30, 1977 and 1976

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STAFF LEGAL COUNSEL  
JOHN W. NORTHEY

October 12, 1977

The Legislative Audit Committee  
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Pine Hills  
School for the two fiscal years ended June 30, 1977.

The audit was conducted by Greteman, Adams and Company under a  
contract between the firm and our office. The comments and recommendations  
contained in this report represent the views of the firm and not necessarily  
the Legislative Auditor.

The agency's written response to the report recommendations is  
included in the back of the audit report.

Respectfully submitted,

*Morris L. Brusett*

Morris L. Brusett, C.P.A.  
Legislative Auditor



## OVERVIEW

### AUDIT OF PINE HILLS SCHOOL

June 30, 1977 and 1976

#### INTRODUCTION

The audit of the various funds and account group of Pine Hills School for the two years ended June 30, 1977 was a financial compliance audit performed by Greteman, Adams & Co. under contract with the Office of the Legislative Auditor. The purpose of the audit was to determine that the financial statements were presented in accordance with generally accepted accounting principles and to determine whether the agency had complied with applicable state laws and regulations.

The audit resulted in a disclaimer of opinion on the general fixed asset account group because of a lack of documentation available to support the assigned values of the fixed assets where historical cost information was not available. However, an unqualified opinion was given on the financial statements of each of the other funds.

There are 17 recommendations in the audit report. The Department of Institutions concurred with 14 of the recommendations and did not concur with 3 of the recommendations.

#### SYNOPSIS OF MAJOR FINDINGS

The areas of major findings presented in the audit report are as follows:

##### Federal Grant Expenditures

Vocational education projects are funded on a reimbursement basis in accordance with an approved project budget. Expenditures are charged to the general fund while the reimbursement goes with the Federal and Private Revenue Account fund. At June 30, 1977 and 1976, vocational education project expenditures of \$13,026 and \$9,878 were charged to the general fund instead of the



Federal and Private Revenue Account fund. Also, cash of \$2,704 received prior to July 1, 1975 as a reimbursement for expenditures was still in the Federal and Private Revenue Account at June 30, 1977.

#### Use of Off-Duty Hourly Personnel

Hourly employees are often used on a volunteer basis to transport boys during their off-duty hours with only their expenses being paid. It is possible that these employees could contend at a later date that this time was required of them in order to keep their jobs and demand back pay for overtime. Also, there is a question as to the state's liability should an accident occur while the employees are using personal automobiles for this travel.

#### Other

Other recommendations included in the report deal with the following:

- o Utilizing SBAS in accounting for expenditures by grant.
- o Obtaining an approval signature on State of Montana vendor invoices prior to payment.
- o Purchasing only those vehicle accessories necessary to support the agency's assigned program.
- o Taking periodic inventories of frozen meat.
- o Reviewing travel claims for accuracy and compliance with state travel regulations.
- o Adequately describing other reimbursable expenses on travel claims.
- o Making travel advances under \$50 only in hardship cases.
- o Improving the system of fixed asset accountability.
- o Disposing of obsolete items.
- o Including agency funds on SBAS even if funds are retained in local accounts.



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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF INSTITUTIONS

TERM EXPIRES

Zella A. Jacobson	Great Falls	January 1979
Eldon E. Kuhns	Billings	January 1979
Willis M. McKeon	Malta	January 1981
Dennis F. Dolan	Butte	January 1981
Dr. John W. Strizich	Helena	January 1981

DEPARTMENT OF INSTITUTIONS

Lawrence M. Zanto, Director

James L. Haubein, Administrator, Management Services Division

PINE HILLS SCHOOL

Don T. Holladay, Ph.D., Superintendent

Luther I. Hutton, Assistant Superintendent

Alan W. Ek, Business Manager



## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Institutions are included in the back of this report.

	<u>Page</u>
Charge reimbursable vocational education expenditures to the Federal and Private Revenue Account fund at the time the expenditure is incurred instead of charging the expenditure to the general fund.	3
<u>Agency Reply:</u> Do not concur. This cannot be done if charging those reimbursable expenditures to the Federal and Private Revenue Account would result in supplanting state funds with federal funds. See page 27.	
Attempt to change the method of funding for vocational education projects from a reimbursement basis to advance funding.	3
<u>Agency Reply:</u> Concur. The Office of Superintendent of Public Instruction is considering awarding vocational education funds in advance in future years. See page 27.	
Utilize SBAS in accounting for expenditures by grant.	4
<u>Agency Reply:</u> Concur. See page 27.	
Discontinue using off-duty personnel for transporting boys until the wage and hour and legal liability implications are resolved.	4
<u>Agency Reply:</u> Concur. See page 27.	
State of Montana vendor invoices should have an approval signature prior to payment.	4
<u>Agency Reply:</u> Concur. See page 28.	
Vehicles only be purchased with those options required for efficient operation and necessary to support the agency's assigned program.	5
<u>Agency Reply:</u> Concur. See page 28.	
The frozen meat inventory should be taken periodically and reconciled to perpetual inventory records.	5
<u>Agency Reply:</u> Concur. See page 28.	



SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
One person should be responsible for reviewing travel claims to be sure they are completely and properly filled out.	6
<u>Agency Reply:</u> Concur. See page 28.	
Boys' travel expenses should be separately identified on employee's travel claim.	6
<u>Agency Reply:</u> Concur. See page 28.	
Travel claims should adequately describe other reimbursable expenses instead of describing as "miscellaneous".	6
<u>Agency Reply:</u> Concur. See page 29.	
Travel advances for less than \$50 should only be made to hardship cases.	7
<u>Agency Reply:</u> Do not concur. Much of the travel is on short notice and it is difficult to determine hardship cases. See page 29.	
Implement a system of property control and accountability which will:	7
a. Provide for placement of an identification number decal on all furniture and equipment.	
b. Update fixed asset records monthly for additions, deletions and transfers.	
c. Keep appropriate documentation to support assigned values where historical cost data is not available.	
<u>Agency Reply:</u> Concur. See page 29.	
Take action to dispose of obsolete items.	8
<u>Agency Reply:</u> Concur. See page 29.	
Include agency funds on SBAS for accountability purposes even if funds are retained in local accounts.	8
<u>Agency Reply:</u> Do not concur. SBAS currently does not have the capability to account for funds not in the State Treasury. See page 30.	
Determine the length of time funds should be held for the benefit of boys who cannot be located prior to reverting to the state.	9
<u>Agency Reply:</u> Concur. See page 30.	



SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Include pertinent employee information in personnel files.	9

Agency Reply: Concur. See page 30.

Strengthen internal control over inventories through a segregation of duties among inventory clerks.	9
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Agency Reply: Concur. See page 30.



**GRETEMAN, ADAMS & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS  
3302 FOURTH AVENUE NORTH  
BILLINGS, MONTANA 59101

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the financial statements of the various funds and account group of Pine Hills School for the years ended June 30, 1977 and June 30, 1976 as listed in the accompanying table of contents. Our examination was made in accordance with generally accepted auditing standards and, except as to the general fixed assets account group, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Pine Hills School did not maintain a record of its general fixed assets prior to June 30, 1976, and accordingly a statement of changes in general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements for the year ended June 30, 1976.

As discussed in note 5 to the financial statements, Pine Hills School carries its general fixed assets at cost or assigned value. Generally accepted accounting principles, in our opinion, require that general fixed assets be stated at cost or estimated original cost, with the estimated original cost of such assets established on the basis of such documentary evidence as may be available, including price levels at the time of acquisition. The records at Pine Hills School are not adequate to determine whether or not the assigned values approximate the original cost of such assets.



GRETEMAN, ADAMS & CO.

Because we were unable to satisfy ourselves by appropriate audit tests or by other means as a result of a lack of historical records, we are unable to express an opinion on the accompanying financial statements of the general fixed assets account group.

In our opinion, the financial statements listed in the foregoing table of contents, other than the financial statements of the general fixed assets account group, present fairly the financial position of the various funds of Pine Hills School at June 30, 1977 and the results of operations of such funds for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Supplementary data included in the Schedules have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

*Greteman, Adams & Co.*

September 1, 1977



## COMMENTS

### INTRODUCTION

The primary purpose of our examination of the financial statements of the various funds and account group of Pine Hills School for the fiscal years ended June 30, 1977 and June 30, 1976 was to enable us to form an opinion as to the financial position of the various funds and account group of Pine Hills School at June 30, 1977 and the results of operations of such funds for the two fiscal years then ended, and to test for compliance with state and federal laws applicable to the agency. We found no violations of state or federal laws except as otherwise noted in subsequent paragraphs. We tested the accounting records for capital projects in progress at the Architecture and Engineering Bureau and physically inspected the projects. We found the capital projects records to be reasonable and the stages of construction to be in agreement with the accounting records. We tested federal grant programs for compliance with state and federal law and found no exceptions.

We reviewed and tested Pine Hills School's system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of the evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also



recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the Pine Hills School's internal control for the two years ended June 30, 1977 would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed the following conditions that we believe merit attention. It should be noted that this list, by its nature, is critical in that it contains only our comments and recommendations on deficiencies observed in the course of our examination. It does not include our observations on the many strong features of Pine Hills School's system of internal control.

#### FEDERAL GRANT EXPENDITURES

Pine Hills School participates in vocational education projects administered by the Office of Superintendent of Public Instruction (OSPI) and funded with federal money. Pine Hills School is reimbursed for the costs incurred in accordance with the approved project applications. The Statewide Budgeting and Accounting System (SBAS) will not accept an expenditure charged to a Federal



and Private Revenue Account appropriation unless the cash is actually on deposit within the state treasury for that particular appropriation. Since the vocational education projects are funded on a reimbursement basis, there is no cash available in the Federal and Private Revenue Account until the project has been completed and reimbursement received from OSPI. Therefore, Pine Hills School charges the costs of these projects to the general fund as they are incurred. At June 30, 1977 and 1976 the general fund was overcharged by \$13,026.38 and \$9,877.86, respectively, and the Federal and Private Revenue Account was undercharged by a corresponding amount because the expenditures were not reflected in the proper fund. In addition, the Federal and Private Revenue Account fund balance at June 30, 1977 includes cash of \$2,704.08 from reimbursements received prior to July 1, 1975. The present method of funding is, in effect, a loan from the general fund which lacks formal approvals.

RECOMMENDATION

*We recommend that Pine Hills School:*

- 1. Charge an expenditure to the appropriate fund at the time the expenditure is incurred.*
- 2. Attempt to change the method of funding vocational education projects from a reimbursement basis to advance funding or, if this is unsuccessful, to obtain a loan from the general fund to finance the expenditures until the reimbursement is received.*

GRANT RECORDS

Due to the reporting requirements of federal grants which require expenditures by grant, Pine Hills School maintains manual records of grant expenditures since the SBAS capability is not being utilized to provide such detail at the present time. Pine Hills School accounting personnel spend considerable time reconciling their manual records by grant with the expenditures charged to the Federal and Private Revenue Account fund. Pine Hills



School may have from 8 to 12 individual grants each fiscal year.

RECOMMENDATION

*We recommend that Pine Hills School utilize SBAS so that expenditures can be identified by grant and accumulated during the grant period to facilitate reporting to the grantor agency.*

USE OF OFF-DUTY HOURLY PERSONNEL

A few hourly employees request to transport boys in return for expenses, outside of normal working hours. They do this on a volunteer basis, often in their personal automobiles, for expenses only. While on the surface this appears very cost-effective, we question potential legal problems. These employees could perhaps at some point maintain that this travel was required of them in order to keep their job and demand back pay for overtime. Also, there is a question as to the state's liability should an accident occur while the employees are using personal automobiles.

RECOMMENDATION

*We recommend that this practice be discontinued while attorneys for the Department of Institutions examine the potential implications with respect to wage and hour laws and legal liability.*

STATE OF MONTANA VENDOR INVOICES

The State has a form to be used by vendors who do not have or choose not to use their own invoices. On this form there is a place for the Institution to indicate payment approval. Pine Hills School has not been using the space provided for approvals and thus there is no indication that these State of Montana Vendor Invoices have been approved for payment. The lack of an approval signature increases the possibility for unauthorized payments.

RECOMMENDATION

*We recommend that all invoices to be paid be signed by the person authorized to approve payment.*



### VEHICLE SPECIFICATIONS

We found that two vehicles purchased during the period included accessories whose necessity we question. These include:

- air conditioning
- cruise control
- electric clock
- remote control outside mirror
- engine in excess of 350 cubic inches

### RECOMMENDATION

*We recommend that vehicles only be purchased with those options required for efficient operation and necessary to support the agency's assigned programs.*

### MEAT INVENTORY

Pine Hills School has its own farm on which they raise cattle and hogs, as well as their own butcher shop to butcher this livestock. They maintain records of the usable meat consumed. They do not, however, take a physical inventory of their frozen meat and have no accounting control to detect thefts or other shortages.

### RECOMMENDATION

*We recommend that the frozen meat be counted as soon as possible. Once a starting point has been established a physical inventory should be taken quarterly and compared to the inventory records. Any differences, other than normal shrinkage or waste, should be followed up.*

### TRAVEL CLAIMS

We made a test review of travel claims and noted thirteen instances where these claims were incorrect. The types of errors noted were

- Footing and calculation errors;
- No times indicated for departure and return;
- Insufficient description of travel purpose; and



- Meals being reimbursed when the employee terminated his travel status prior to the time required to earn meal reimbursement.

Travel claims have been both overpaid and underpaid because of the first error. The largest error noted was under \$20 and the net of all thirteen errors was under \$25.

RECOMMENDATION

*We recommend that one person be responsible for reviewing travel claims to be sure that they are completely and properly filled out. This person should also ascertain that the amounts charged are in accordance with the current Montana Operations Manual (MOM) allowances.*

Because of the nature of the Institution, travel expenses for boys' meals and incidentals are paid by the Pine Hills School employee who is accompanying them. Quite often, these amounts are included under "meals" on the travel claim, making it difficult or impossible to verify that the correct amount has been charged for employee meals.

RECOMMENDATION

*We recommend that all boys' expenses be shown as "other" on the travel claim and receipted as required.*

Some employees are charging minor amounts identified as "miscellaneous" on travel claims. With this description it is impossible to determine if these amounts are proper reimbursable business expenses, or represent overcharges to the State by employees.

RECOMMENDATION

*We recommend that all items included on travel claims be fully described as required by MOM 1.014.00 and descriptions such as "miscellaneous" not be accepted.*

Current practice is to make travel advances of less than \$50 to employees who request them. MOM 1-1020.40 restricts advances of less than \$50 to hardship cases.



RECOMMENDATION

We recommend that the Institution adhere to the MOM requirements and restrict advances of under \$50 to hardship cases. In addition, permanent travel advances should be considered for those employees making frequent trips, with reimbursement made once per month per MOM 1-1050.10. This will reduce the clerical workload.

PROPERTY, PLANT AND EQUIPMENT

The following conditions which were noted in the audit report for the fiscal year ending June 30, 1975 have not been corrected:

- Property number decals are not affixed to all school assets
- Property records are not updated monthly for purchases, sales, transfers, trade-ins or retirements of assets
- The school has not obtained general ledger dollar control over the fixed assets.

The school has prepared a listing of fixed assets with historical cost or assigned values. Sufficient documentation is not available to determine the reasonableness of the assigned values where historical cost data was not available.

A listing of assets is meaningless if a system of identification is not implemented. Property number decals should be affixed to all school assets. Without identifying decals, only that small portion of the property which has serial numbers can be positively identified.

RECOMMENDATION

We recommend that Pine Hills School:

1. Implement a system of property control and accountability which will provide for placement of an identification number decal on all equipment.
2. Update fixed asset records monthly for additions, deletions and transfers.



3. *Keep appropriate documentation to support assigned values where historical cost data is not available.*

#### OBSOLETE INVENTORIES

Included with inventories are some extremely old obsolete items. The following is a partial listing based on our test work:

- Bath tub & other bathroom fixtures
- Unusable welding rod
- Wool army surplus clothing
- Pipe fittings (most received about 1960)
- Kitchen items (including 141 teapots and a roasting pan received in 1959)
- 13 box end wrenches, all of the same size, received between 1965 and 1968.

The school has a partial listing of obsolete items which have a historical cost of some \$9,000. In addition to the items in the warehouse, they have a large pile of used brick from a building they demolished some years ago.

#### RECOMMENDATION

*We recommend that the school completely list all obsolete items and contact the Department of Administration for disposal instructions.*

#### AGENCY FUNDS

The school maintains local bank accounts for a transportation fund, canteen fund and Boys' fund which are not included on SBAS. Also, the school has a savings account which contains funds for boys who have left the school and cannot be located. The savings account is not on SBAS.

#### RECOMMENDATION

*We recommend that Pine Hills School:*

1. *Record the funds on the Statewide Budgeting and Accounting System for accountability even if the funds are retained in local accounts.*



2. Determine the length of time funds should be held for the benefit of boys who cannot be located prior to reverting to the state and transfer to the state, funds which meet the legal criteria for reverting.

#### PERSONNEL FILES

The following conditions which were noted in the audit report for the fiscal year ending June 30, 1975 have not been corrected.

- Employee withholding forms (Form W-4) are not always filed in the personnel files.
- Payroll status forms are not always filed in the personnel files to substantiate pay changes.

#### RECOMMENDATION

We recommend that Pine Hills School include pertinent employee information in the personnel file.

#### DUTIES OF INVENTORY PERSONNEL

As was noted in the audit report for the fiscal year ended June 30, 1975, there is inadequate separation of duties among store clerks. One person prepares requisitions, receives goods into the store, and has physical control of the store inventory. This combination of duties makes detection of any inventory irregularities difficult.

#### RECOMMENDATION

We recommend that one of the two store clerks be responsible for the physical control of the inventory, including checking inventory in and out of the store area. The other clerk should be responsible for the perpetual inventory records and requisitions. The clerk responsible for the perpetual records should have an office that does not allow access to the inventory area.



PRIOR YEAR RECOMMENDATIONS

We reviewed recommendations made in the prior audit report for the fiscal year ended June 30, 1975 in the financial compliance area. Except as indicated in prior sections of this report, Pine Hills School has taken action to implement the recommendations in accordance with its response included in that report.



FINANCIAL STATEMENTS



PINE HILLS SCHOOL

Combined Balance Sheets

June 30, 1977

<u>Assets and Other Debits</u>	<u>General Fund</u>	<u>Federal and Private Revenue Account</u>	<u>Interest and Income (FPRA)</u>	<u>Agency Fund (note 3)</u>	<u>General Fixed Assets (note 3)</u>
Cash in banks	\$ 1,000	—	26,193	19,071	—
Cash in State Treasury	—	27,418	—	—	—
Encumbered appropriation	47,931	—	—	—	—
General fixed assets (notes 4 & 5)	—	—	—	—	<u>3,934,870</u>
	<u>\$ 48,931</u>	<u>27,418</u>	<u>26,193</u>	<u>19,071</u>	<u>3,934,870</u>
<u>Liabilities and Fund Balances</u>					
Accrued support expenditures	48,931	2,419	17,426	19,071	—
Due to boys	—	—	—	—	—
Fund balances:					
Investment in general fixed assets	—	—	—	—	3,934,870
Fund balances	—	<u>24,999</u>	<u>8,767</u>	<u>—</u>	<u>—</u>
	<u>\$ 48,931</u>	<u>27,418</u>	<u>26,193</u>	<u>19,071</u>	<u>3,934,870</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Revenues - Budget and Actual

Year ended June 30, 1977

	General Fund		Federal and Private Revenue Account		Interest and Income (FPPRA)	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Reimbursements:</b>						
Subsistence charges	\$ 1,600	1,781	-	-	-	-
Sale of property	410	234	-	-	-	-
Rentals and leases	2,280	1,765	-	-	-	-
Federal grants and contracts	-	-	74,000	98,945	-	-
Interest	-	-	-	-	39,667	39,926
Income from state lands	<u>4,290</u>	<u>3,780</u>	<u>74,000</u>	<u>98,945</u>	<u>30,510</u>	<u>86,291</u>
Prior year's revenue adjustments	-	-	-	(644)	-	(36)
	<u>\$ 4,290</u>	<u>3,780</u>	<u>74,000</u>	<u>98,301</u>	<u>70,177</u>	<u>126,181</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Revenues - Budget and Actual

Year ended June 30, 1976

	General Fund		Federal and Private Revenue Account		Interest and Income (FPIRA)	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Reimbursements:</b>						
Subsistence charges	\$ 1,600	2,247	-	-	-	-
Sale of property	410	550	-	-	-	-
Rentals and leases	3,300	2,420	-	-	-	-
Federal grants and contracts	-	-	65,000	107,681	-	-
Interest	-	-	-	-	30,000	41,046
Income from state lands	<u>5,310</u>	<u>5,217</u>	<u>65,000</u>	<u>107,681</u>	<u>30,540</u>	<u>42,957</u>
					<u>60,540</u>	<u>84,003</u>
Prior year's revenue adjustments	-	(2)	-	(5)	-	-
	<u>\$ 5,310</u>	<u>5,215</u>	<u>65,000</u>	<u>107,676</u>	<u>60,540</u>	<u>84,003</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Expenditures - Budget and Actual

Year ended June 30, 1977

	General Fund		Federal and Private Revenue Account		Interest and Income (FPPA)		Total (Memorandum Only)
	Budget	Actual	Budget	Actual	Budget	Actual	Budget
							Actual
Administration program	\$ 433,167	433,076	1,503	1,503	15,541	15,541	450,211
Care and custody program	570,663	569,513	22,900	22,900	128,048	127,764	721,611
Developmental program	531,961	531,387	82,167	63,308	-	-	614,128
Community services program	12,117	12,105	-	-	-	-	12,117
Farm program	101,054	100,950	-	-	-	-	101,054
	<u>1,648,962</u>	<u>1,647,031</u>	<u>106,570</u>	<u>87,711</u>	<u>143,589</u>	<u>143,305</u>	<u>1,899,121</u>
Prior year's expenditure adjustments	-	338	-	37	-	(27)	-
	<u>\$ 1,648,962</u>	<u>1,647,369</u>	<u>106,570</u>	<u>87,748</u>	<u>143,589</u>	<u>143,278</u>	<u>1,899,121</u>
							<u>1,878,395</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Expenditures - Budget and Actual

Year ended June 30, 1976

	<u>General Fund</u>	<u>Federal and Private Revenue Account</u>		<u>Interest and Income (FPIRA)</u>		<u>Federal Revenue Sharing (FPIRA)</u>	<u>Total (Memorandum Only)</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>
Administration program	\$ 135,278	135,016	513	2,796	1,896	-	-
Care and custody program	438,534	435,757	-	73,485	73,153	-	-
General services and physical plant program	305,770	299,654	-	16,879	13,411	-	-
Education and training program	281,587	281,558	77,077	74,588	16,144	16,079	-
Farm program	117,067	114,066	-	-	-	-	-
Clinical services program	236,235	231,718	21,571	18,277	11,336	11,167	-
Food service program	101,357	93,355	14,796	13,932	-	-	-
	<u>1,615,828</u>	<u>1,591,124</u>	<u>113,957</u>	<u>107,310</u>	<u>120,640</u>	<u>115,706</u>	<u>-</u>
Prior year's expenditure adjustments	-	5,525	-	-	-	-	2,670
	<u>\$ 1,615,828</u>	<u>1,596,649</u>	<u>113,957</u>	<u>107,310</u>	<u>120,640</u>	<u>115,706</u>	<u>2,670</u>
							8,195
							<u>1,850,425</u>
							<u>1,822,335</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Changes in Fund Balances

Year ended June 30, 1977

	General Fund	Federal and Private Revenue Account	Interest and Income (FPRA)
Fund balance at July 1, 1976	\$ -	14,446	25,864
Receipts and additions:			
Appropriation for operating purposes	1,648,962	-	-
Revenues	<u>3,780</u>	<u>98,301</u>	<u>126,181</u>
	<u>1,652,742</u>	<u>98,301</u>	<u>126,181</u>
Expenditures:			
Charged to current year's appropriations	1,647,031	87,711	143,305
Charged (credited) to prior year's appropriations	<u>338</u>	<u>37</u>	<u>(27)</u>
	<u>1,647,369</u>	<u>87,748</u>	<u>143,278</u>
Reversion to state	<u>5,373</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 1977	<u>\$ -</u>	<u>24,999</u>	<u>8,767</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Combined Statements of Changes in Fund Balances

Year ended June 30, 1976

	General Fund	Federal and Private Revenue Account	Interest and Income (FPRRA)	Federal Revenue Sharing (FPRRA)
Fund balance at July 1, 1975	\$ -	14,080	57,567	-
Receipts and additions:			-	-
Appropriation for operating purposes	1,615,828	-	-	-
Revenues	5,215	<u>107,676</u>	<u>84,003</u>	<u>-</u>
Expenditures:				
Charged to current year's appropriations	1,591,124	107,310	115,706	-
Charged to prior year's appropriations	5,525	<u>-</u>	<u>-</u>	<u>2,670</u>
Reversion to state	<u>1,596,649</u>	<u>107,310</u>	<u>115,706</u>	<u>2,670</u>
	<u>24,394</u>	<u>-</u>	<u>-</u>	<u>(2,670)</u>
Fund balance at June 30, 1976	\$ -	<u>14,446</u>	<u>25,864</u>	<u>-</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Statement of Changes in General Fixed Assets

Year ended June 30, 1977

	<u>Land</u>	<u>Buildings</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance July 1, 1976	\$ 233,679	3,091,419	434,477	3,759,575
Expenditures from Pine Hills School appropriations	-	-	33,812	33,812
Expenditures from long range building appropriations	-	147,991	-	147,991
Retirements and other	-	-	(6,508)	(6,508)
Balance June 30, 1977	\$ 233,679	<u>3,239,410</u>	<u>461,781</u>	<u>3,934,870</u>

See accompanying notes to financial statements.



PINE HILLS SCHOOL

Notes to Financial Statements

June 30, 1977 and 1976

(1) Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and results of operations of Pine Hills School except for a statement of changes in general fixed assets for the year ended June 30, 1976, which was not maintained.

The different funds and account group included in the financial statements and their purpose are:

General Fund - to account for all Pine Hills School revenues and expenditures not included in any of the other funds.

Federal and Private Revenue Account - to account for governmental grants received other than those grants for which a separate fund has been established and account for the expenditures against the grants.

Interest and Income Federal and Private Revenue Account (Interest and Income FPRA) - to account for the interest and income from the land grant given to the state under the Enabling Act for the purpose of supporting a state industrial school. This land given to the state under the Enabling Act and all moneys received from the sale of these lands are held as permanent funds in the legacy and trust fund which is administered by the Department of State Lands. Actual income from this portion of the legacy and trust fund is made available for the maintenance and support of Pine Hills School.

Federal Revenue Sharing Federal and Private Revenue Account (Federal Revenue Sharing FPRA) - to account for the Federal revenue sharing monies received from the state as a secondary recipient and account for the expenditures against such funds.



PINE HILLS SCHOOL

Notes to Financial Statements

Agency Fund - to reflect cash held for boys committed to Pine Hills School and reflect the corresponding liability.

General Fixed Assets Account Group - to account for the general fixed assets of Pine Hills School.

The accounting policies of Pine Hills School conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

Fund Accounting

The accounts are organized on the basis of funds and account group, each of which is considered to be a separate accounting entity. The operations of each fund and account group are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

Basis of Accounting

The modified accrual basis of accounting, under which expenditures are recorded when the liability is incurred and revenues are recorded when received in cash unless susceptible to accrual (i.e. measurable and available to finance the agency's operations) or of a material amount and not received at the normal time of receipt, is followed for all funds.

Appropriations

Appropriations in the general fund and Federal revenue sharing (FPRA) are made by the legislature for operating purposes of Pine Hills School. Expenditures against these appropriations are funded by the corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year end.



PINE HILLS SCHOOL

Notes to Financial Statements

Appropriations in the long range building fund are made by the legislature for capital projects of Pine Hills School. Appropriations in this fund continue until the completion of the project unless a specific time limit has been set by the legislature. Expenditures against these appropriations are funded by the corresponding funds at the state level. At time of completion of a project or expiration of a time limit the appropriation reverts to the unappropriated fund balance in the state long range building fund.

Inventories

Inventories are expensed at the time of purchase.

General Fixed Assets

Pine Hills School did not maintain an adequate record of its general fixed assets prior to June 30, 1976. Assets purchased are recorded as expenditures in the various funds in the year of purchase or encumbrance. The cost of general fixed assets purchased is transferred to the general fixed asset account group to provide accountability.

Assets are recorded at historical cost or estimated historical cost if the original cost is not available.

Depreciation is not provided on general fixed assets.

Farm Operation

The farm operation is a separate program of the school which consists of a rehabilitation program for the boys and at the same time defrays food costs of the school.

Vacation Pay and Sick Pay

The value of unused vacation and unused sick leave accumulated by employees is not recorded as a liability. Each permanent employee can accumulate



PINE HILLS SCHOOL

Notes to Financial Statements

and carryover a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. The amount of accumulated leave at June 30, 1977 was not readily determinable.

(2) Retirement Plan

The State of Montana has two contributory retirement plans covering substantially all employees of Pine Hills School. Instructional employees are eligible for the Teachers Retirement System and other employees are eligible for the Public Employees Retirement System. Employer contributions for the years ended June 30, 1976 and June 30, 1977 for all funds were \$66,889 and \$75,104, respectively. The unfunded past service costs and the actuarially computed value of vested benefits are not readily available for members of the plans employed by Pine Hills School.

(3) Accounts Not on Statewide Budgeting and Accounting System

The cash in the agency fund represents primarily cash held in trust for the boys committed to Pine Hills School. This cash and the corresponding liability are not recorded in the statewide budgeting and accounting system, but have been reflected in the financial statements for reporting purposes.

The general fixed asset account group is not recorded in the statewide budgeting and accounting system but has been reflected in the financial statements for reporting purposes.

(4) Long Range Building Projects

The Architecture and Engineering Division of the Department of Administration is responsible for the planning, construction and administration of appropriations for buildings and building modifications at Pine Hills



PINE HILLS SCHOOL

Notes to Financial Statements

School. The cost of buildings constructed at Pine Hills School is recorded in the school's general fixed asset account group when the project is completed. Capital projects at Pine Hills School for the two years ended June 30, 1977 are as follows:

<u>Project</u>	Amount of Appropriation	Expended			<u>Total</u>
		Prior to July 1, 1975	Fiscal Year 1975-76	Fiscal Year 1976-77	
Construct utility tunnel	\$ 85,000	84,297	703	-	85,000
Install campus fire alarm system and fire escapes	52,813	100	39,404	502	40,006
Construct new boiler house	180,000	-	12,864	147,489	160,353
	<u>\$ 317,813</u>	<u>84,397</u>	<u>52,971</u>	<u>147,991</u>	<u>285,359</u>

(5) Fixed Assets

Prior to June 30, 1976, Pine Hills School did not maintain a record of its general fixed assets. At June 30, 1976, the school inventoried all of its fixed assets and assigned values to these assets. Generally, assets acquired after June 30, 1975 are included at actual invoice cost. Assets acquired prior to this date are generally included at an estimated cost. The accounting records are not adequate to ascertain the actual cost of many assets acquired prior to June 30, 1975.



PINE HILLS SCHOOL

Schedule of Expenditures by Program

Year ended June 30, 1977

	Administration Program	Care and Custody Program	Developmental Program	Community Services Program	Farm Program	Total
Personal services:						
Salaries, wages and employee benefits	\$ 307,684	610,630	552,835	12,105	62,314	1,545,568
Operating expenses:						
Contracted services	5,481	30,458	1,756	-	372	38,067
Supplies and materials	44,276	59,720	17,395	-	28,682	150,073
Communications	16,143	500	-	-	70	16,713
Travel	790	53	6,682	-	92	7,617
Rent	1,330	2,288	1,612	-	145	5,375
Utilities	50,214	-	-	-	1,256	51,470
Repairs and maintenance	9,906	-	642	-	3,706	14,254
Other expenses	277	12,886	1,935	-	-	15,098
	<u>128,417</u>	<u>105,905</u>	<u>30,022</u>	<u>-</u>	<u>34,323</u>	<u>298,667</u>
Capital outlay:						
Equipment	14,019	3,642	11,838	-	4,313	33,812
	<u>450,120</u>	<u>720,177</u>	<u>594,695</u>	<u>12,105</u>	<u>100,950</u>	<u>1,878,047</u>

Schedule



## PINE HILLS SCHOOL

## Schedule of Expenditures by Program

Year ended June 30, 1976

	Administration Program	Care and Custody Program	General Services and Physical Plant Program	Education and Train- ing Program	Farm Program	Clinical Services Program	Food Service Program	Total
<b>Personal services:</b>								
Salaries, wages and employee benefits	\$ 117,148	491,070	203,890	316,359	51,664	231,279	44,152	1,455,562
Operating expenses:								
Contracted services	135	3,969	2,095	1,342	974	16,177	167	24,859
Supplies and materials	1,710	311	42,294	15,202	28,500	5,671	60,313	154,001
Communications	15,126	-	27	-	70	6	-	15,229
Travel	1,236	-	293	595	41	4,532	94	6,791
Rent	370	1,876	364	202	738	973	-	4,523
Utilities	-	-	44,722	-	1,243	-	-	45,965
Repairs and maintenance	204	89	5,368	749	3,472	142	-	10,024
Other expenses	353	11,595	37	1,481	150	27	(60)	13,583
	<u>19,134</u>	<u>17,840</u>	<u>95,200</u>	<u>19,571</u>	<u>35,188</u>	<u>27,528</u>	<u>60,514</u>	<u>274,975</u>
Capital outlay:								
Equipment	1,143	-	13,975	36,295	27,214	2,355	2,621	83,603
	<u>\$ 137,425</u>	<u>508,910</u>	<u>313,065</u>	<u>372,225</u>	<u>114,066</u>	<u>261,162</u>	<u>107,287</u>	<u>1,814,140</u>



AGENCY REPLIES



State of Montana  
Department of Institutions



GOVERNOR  
THOMAS L. JUDGE

DIRECTOR  
~~XXXXXXXXXXXXXX~~  
Lawrence M. Zanto



BOARD MEMBERS  
ZELLA A. JACOBSON, GREAT FALLS  
ELDON E. KUHNS, BILLINGS  
WILLIS M. McKEON, MALTA  
ROBERT J. PALLO, KALISPELL  
JOHN W. STRIZICH, M.D., HELENA

Helena, 59601

October 27, 1977

Gretzman, Adams, & Co.  
Certified Public Accountants  
P.O. Box 2020  
Billings, Montana 59103

Dear Mr. Adams:

We have reviewed the audit report prepared by your firm on Pine Hills School. Our review was made in cooperation with Don Holladay, Superintendent of Pine Hills School.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence M. Zanto". Below the signature, the name "Lawrence M. Zanto" is printed in a smaller, sans-serif font, followed by the title "Director" underneath it.

LMZ:jw

Enclosure

cc: Morris Brusett



RESPONSE TO AUDIT RECOMMENDATIONS FOR PINE HILLS SCHOOL

RECOMMENDATION

We recommend that Pine Hills School:

1. Charge an expenditure to the appropriate fund at the time the expenditure is incurred.
2. Attempt to change the method of funding vocational education projects from a reimbursement basis to advance funding or, if this is unsuccessful, to obtain a loan from the general fund to finance the expenditures until the reimbursement is received.

Pine Hills School receives partial reimbursement from the Federal Government through the Office of the Superintendent of Public Instruction for approved Vocational Education projects. These funds are restricted and can only be used to improve or further the Vocational Education program. The funds cannot be used to supplant State Funds for the operation of the program.

The reimbursement is based on a formula which is contingent upon the school district and the availability of funds and therefore the amount awarded to the program is very unpredictable.

1. Pine Hills School would not be able to comply with this recommendation because it could jeopardize this source of funds.
2. The Office of Superintendent of Public Instruction is considering awarding the Vocational Education funds in advance. This would be the only way Pine Hills School could comply with this recommendation. To obtain and monitor a loan from the General Fund for Vocational Education would be very burdensome because of the uncertainty of the amount of the award and the restriction placed on the funds.

RECOMMENDATION

We recommend that Pine Hills School utilize SBAS so that expenditures can be identified by grant and accumulated during the grant period to facilitate reporting to the grantor agency.

The Department of Institutions and Department of Administration will assist Pine Hills School with setting up their Federal Grants on SBAS.

RECOMMENDATION

We recommend that this practice be discontinued while attorneys for the Department of Institutions examine the potential implications with respect to wage and hour laws and legal liability.

This has been done.



RECOMMENDATION

We recommend that all invoices to be paid be signed by the person authorized to approve payment.

This has been implemented.

RECOMMENDATION

We recommend that vehicles only be purchased with those options required for efficient operation and necessary to support the agency's assigned programs.

Almost all State cars are purchased with air conditioning. A study by the Purchasing Division has shown that three fourths of the cost of air conditioning can be recovered when the vehicle is traded in or sold.

Some states are now requiring cruise control on all new vehicles to conserve gasoline. This was the intent of Pine Hills when the vehicles were purchased.

The larger engines were ordered for the station wagons because there are times when the vehicles are required in transporting up to nine boys plus luggage.

Pine Hills will fully justify all accessories requested on any new vehicles.

RECOMMENDATION

We recommend that the frozen meat be counted as soon as possible. Once a starting point has been established a physical inventory should be taken quarterly and compared to the inventory records. Any differences, other than normal shrinkage or waste, should be followed up.

This recommendation will be implemented effective November 1, 1977. The Warehouse Foreman will be the person responsible for maintaining this inventory.

RECOMMENDATION

We recommend that one person be responsible for reviewing travel claims to be sure that they are completely and properly filled out. This person should also ascertain that the amounts charged are in accordance with the current Montana Operations Manual (MOM) allowances.

This will be implemented. Secretaries preparing the travel claims will double check them. Final review will be made by the Payroll Clerk.

RECOMMENDATION

We recommend that all boys' expenses be shown as "other" on the travel claim and receipted as required.

This has been implemented.



RECOMMENDATION

We recommend that all items included on travel claims be fully described as required by MOM 1.014.00 and descriptions such as "miscellaneous" not be accepted.

This has been implemented.

RECOMMENDATION

We recommend that the Institution adhere to the MOM requirements and restrict advances of under \$50 to hardship cases. In addition, permanent travel advances should be considered for those employees making frequent trips, with reimbursement made once per month per MOM 1-1050.10. This will reduce the clerical workload.

Much of the travel is on short notice and it is difficult to determine "hardship cases". Because of this, Pine Hills will continue giving travel advances under \$50 if the request is made by the employee.

RECOMMENDATION

We recommend that Pine Hills School:

1. Implement a system of property control and accountability which will provide for placement of an identification number decal on all equipment.
2. Update fixed asset records monthly for additions, deletions and transfers.
3. Keep appropriate documentation to support assigned values where historical cost data is not available.

Procedures to implement this recommendation are being implemented.

RECOMMENDATION

We recommend that the school completely list all obsolete items and contact the Department of Administration for disposal instructions.

Obsolete items in the inventory will be listed and disposed of through the surplus property procedures of the Department of Administration. The exceptions to this will be the used brick, which is to be used in the recreational area of the new security lodge and the brass fitting which will be traded for other needed supply items pending Department of Administration approval.

RECOMMENDATION

We recommend that Pine Hills School:

1. Record the funds on the Statewide Budgeting and Accounting System for accountability even if the funds are retained in local accounts.



2. Determine the length of time funds should be held for the benefit of boys who cannot be located prior to reverting to the state and transfer to the state, funds which meet the legal criteria for reverting.
1. SBAS currently does not have the capability to account for funds not in the State Treasury.
2. Funds held for the benefit of boys who have left the institution and cannot be located would be subject to the Unclaimed Property Act and turned over to the State at the end of seven years. The Department of Institutions will work with Pine Hills to comply with this recommendation.

RECOMMENDATION

We recommend that Pine Hills School include pertinent employee information in the personnel file.

This has been implemented.

RECOMMENDATION

We recommend that one of the two store clerks be responsible for the physical control on the inventory, including checking inventory in and out of the store area. The other clerk should be responsible for the perpetual inventory records and requisitions. The clerk responsible for the perpetual records should have an office that does not allow access to the inventory area.

Pine Hills School will investigate better methods to control the inventory. To provide office space for the clerk in charge of the perpetual records would require either partitioning a space at a cost to the institution or moving the individual to the administration office which is a considerable distance from the warehouse. Neither of these alternatives are practical.





